

Report
of the
Examination of
Medica Health Plans of Wisconsin
Minnetonka, Minnesota
As of December 31, 2003

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. HISTORY AND PLAN OF OPERATION	3
III. MANAGEMENT AND CONTROL.....	6
IV. AFFILIATED COMPANIES.....	10
V. CORPORATE INSURANCE.....	12
VI. FINANCIAL DATA	13
VII. SUMMARY OF EXAMINATION RESULTS.....	20
VIII. CONCLUSION.....	23
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS	24
X. ACKNOWLEDGMENT.....	25



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

October 28, 2004

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
Web Address: oci.wi.gov

Honorable Jorge Gomez
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of
the affairs and financial condition of:

MEDICA HEALTH PLANS OF WISCONSIN
Minnetonka, Minnesota

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Medica Health Plans of Wisconsin (MHP-WI or the company) was conducted in 2001 as of December 31, 2000. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Medica Health Plans of Wisconsin is a nonprofit network model health maintenance organization (HMO) insurer. An HMO insurer is defined by s. 609.01 (2), Wis. Stat., as "... a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, comprehensive health care services performed by providers selected by the organization." Under the network model, the company has a delivery system consisting of independent contracting physicians operating out of their separate offices. HMOs compete with traditional fee-for-service health care delivery.

The company was incorporated April 8, 1996, and commenced business January 1, 1998. The company is controlled by Medica Holding Company, a Minnesota corporation that owns or controls two health maintenance organizations, and one property and casualty insurance company. Per a separation agreement, MHP-WI was spun-off from the Allina Health System along with other managed care related entities effective April 30, 2002. Control of the company was transferred to Medica Holding Company under a Plan of Reorganization and Disassociation Agreement between Medica Holding Company and Allina Health System, filed with the Office of the Commissioner of Insurance on January 10, 2002, and subsequently approved.

The company contracts with providers in Wisconsin, Minnesota, South Dakota and North Dakota to make health care services available to its enrollees. Providers execute one and sometimes two contracts covering services provided to enrollees of MHP-WI, Medica Health Plans (a Minnesota-domiciled HMO), Medica Insurance Company, and Allina Self-Insured (n/k/a Medica Self-Insured).

For the most part, MHP-WI contracts with clinics to provide primary and specialty care services to its enrollees. Physicians and/or clinics are required to provide services on a 24-hour basis. Physicians are paid on a fee-for-service basis subject to fee maximums as set forth in a fee schedule. Some agreements include withhold provisions. Withheld amounts are returned in the event that certain performance standards are met. The entire withheld amount

was returned for the 2001 to 2003 calendar years. Providers agree to not bill enrollees for covered services, except for applicable deductibles and copayments.

The company currently contracts with the following Wisconsin clinics for primary care:

Allina Medical Clinic	Family Health Associates	Regina Medical Group
Amery Regional Medical Center	Hudson Physicians, Inc.	River Falls Medical Clinic
Baldwin Area Medical Center	Mainstreet Clinic	Shell Lake Clinic
Chequamegon Clinic	Mariner Medical Clinic	St. Croix Regional Medical Center
Cumberland Clinic	New Richmond Clinic	Stillwater Medical Group
Duluth Clinic	North Woods Community Health Center	Stone Lake Medical Clinic
Fairview Ellsworth Clinic	Osceola Medical Center	

The contracts include hold-harmless provisions for the protection of policyholders.

The contract(s) have one- or two-year terms and may be terminated immediately for breach of contract if the provider loses his/her license to provide contracted services. The contract(s) can be terminated without cause upon 125-day prior written notice in advance of the anniversary date or upon mutual consent.

The company contracts with over 150 hospitals to provide inpatient services.

Hospitals are reimbursed using a variety of methods including fee-for-service (FFS), discounted FFS, per diem, per case and/or per stay basis. The contracts include hold-harmless provisions for the protection of policyholders.

The company's service area is comprised of the following counties:

Ashland	Douglas	Polk
Barron	Dunn	St. Croix
Bayfield	Eau Claire	Sawyer
Burnett	Pierce	Washburn
Chippewa		

The company markets its "Choice Select Plan" that offers comprehensive health care coverage. The Choice Select product is a joint contract that has several liability with Medica Insurance Company (a Minnesota property and casualty insurer). MHP-WI is liable for in-network covered benefits and out-of-network emergency and authorized referral services. Medica Insurance Company is liable for out-of-network, nonemergency covered benefits that were provided without prior authorization. The following health care benefits are provided:

- Office visits
- Urgent care visits¹
- Prenatal and maternity services
- Preventative health care
- Immunizations
- Surgical services
- Lab, pathology and x-ray
- Prescription drugs²
- Oral contraceptives²
- Inpatient hospital services
- Outpatient hospital services³
- Ambulance⁴
- Physical therapy
- Occupational therapy
- Speech therapy
- Neuropsychological evaluations
- Inpatient mental health and AODA
- Outpatient mental health and AODA
- Transitional mental health treatment
- Durable medical equipment & prosthetics⁴
- Diabetic supplies and services⁵
- Temporomandibular disorder treatment
- Kidney disease treatment
- Organ and bone marrow transplants
- Reconstructive and restorative surgery⁴
- Home health care⁴
- Skilled nursing facility care⁴
- Hospice services
- Dental services recommended by physician⁴
- Out-of-network emergency services

¹ \$10 per visit copayment

² \$11 copayment for formulary/\$26 for non-formulary/\$28 formulary mail service/\$65 non-formulary mail service

³ \$40 copayment for emergency room visits. The copayment is waived if admitted to the same hospital within 24 hours

⁴ 20% coinsurance

⁵ 20% coinsurance for formulary/40% for non-formulary

Inpatient mental health and AODA coverage is limited to 30 days and \$6,300.00, outpatient mental health and AODA coverage is limited to \$900.00 per year, and skilled nursing care is limited to 60 days. Plan coverage is contingent on nonemergency services being provided by participating physicians and hospitals or on the referral of participating physicians. The company also has a copayment plan in which inpatient services have varying copayments that are subject to a maximum amount of out-of-pocket expenses.

The company currently markets to groups only. The company uses outside agencies and pays 0 to 10% commission on new and renewal business.

The company uses an actuarially determined base as a beginning point in premium determination. This rate is adjusted to reflect the age, sex, occupation, and coverage characteristics for new groups. Experience is reviewed for renewal groups and, based on the review, a recommendation is made regarding adjusting the rate. The base rate is adjusted quarterly for inflation and other trending factors.

III. MANAGEMENT AND CONTROL

Board of Directors

As of the examination date, the board of directors consisted of thirteen members.

Three directors are elected annually to serve a three-year term. Officers are appointed by the board of directors. Members of the company's board of directors may also be members of other boards of directors in the holding company group. Board member compensation is included in the administrative expense allocated to the company.

The board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Benjamin Ravn Bache-Wiig, M.D. Plymouth, MN	Physician and Partner at North Clinic	2006
Richard D Bliss Excelsior, MN	President at Anchor Bank N.A.	2006
John Dean Buck Naples, FL	CEO, Whitefish Ventures	2006
Burton Donald Cohen Minneapolis, MN	Owner at MSP Communications	2006
Daryl Eugene Durum Woodbury, MN	COO NAU Country Insurance Company	2007
John Howard Flittie Medina, MN	Retired	2007
Peter Hoyt Kelly, M.D. St. Paul, MN	Surgeon St. Paul Surgeons Ltd.	2007
Samuel H Leon, M.D. Edina, MN	President Minnesota Gastroenterology, PA	2006
Krista Linnea Sanda Blaine, MN	Public Member, Board of Medical Practice	2005
Austin Padraic Sullivan Plymouth, MN	Senior Vice President, General Mills, Inc.	2005
Esther Moellering Tomljanovich Lake Elmo, MN	Retired	2005
Stephen Wiczek Nisswa, MN	President Nisswa Marine	2006
David Michael Tilford Minneapolis, MN	President	2007

Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office
David Michael Tilford	President
Aaron Lee Reynolds	Executive Vice President, Chief Financial Officer/Treasurer
James P Jacobson	Assistant Secretary
Kris Sanda	Secretary

The officers are also officers of the other Medica entities. Officer compensation is included in the administrative expense allocated to the company.

The company has no employees as necessary staff is provided through an administrative services agreement with Medica Health Plans. The terms of the agreement are as follows:

Effective Date: January 1, 2000

Medica MN Responsibilities: Medica will provide services including but not limited to:

- Provider relations
- Provider network development, management and contracting
- Medical management
- Communications
- Finance
- Sales and marketing
- Member services
- Human resources
- Facilities planning
- Purchasing
- Print and telecommunication services
- Mail distribution
- Payroll
- Accounts payable
- Controllership functions
- Underwriting
- Cash management
- Bank account management

Reimbursement: Medica WI will make monthly installments with amounts due being based on Medica MN's standard methodologies for the allocation of direct and indirect administrative expenses across market segments. The methodologies may vary based on membership, FTEs or other standards.

An administrative services agreement, formerly between Medica Health Plans and UHC Management Company, Inc., was amended to include all operating affiliates of the Company as party to the agreements. This agreement covers management services that are system dependent such as billing, enrollment, claims processing, and accounting. Payment for services is based on a determined dollar amount per member per month.

Financial Requirements

The financial requirements for an HMO under s. Ins 9.04 (2), Wis. Adm. Code, are as follows:

	Amount Required
1. Minimum capital or permanent surplus	\$750,000, if organized on or after July 1, 1989
2. Compulsory surplus	The greater of \$750,000 or: If the percentage of covered liabilities to total liabilities is less than 90%, 6% of the premium earned in the previous 12 months; If the percentage of covered liabilities to total liabilities is at least 90%, 3% of the premium earned in the previous 12 months
3. Security surplus	The greater of: 140% of compulsory surplus reduced by 1% of compulsory surplus for each \$33 million of additional premiums earned in excess of \$10 million or 110% of compulsory surplus

Covered liabilities are those due to providers who are subject to statutory hold-harmless provisions.

In addition, there is a special deposit requirement equal to the lesser of the following:

1. An amount necessary to maintain a deposit equaling 1% of premium written in this state in the preceding calendar year;
2. One-third of 1% of premium written in this state in the preceding calendar year.

The company satisfied the deposit requirement for 2003 with a deposit of \$100,000 with the State Treasurer.

Insolvency Protection for Policyholders

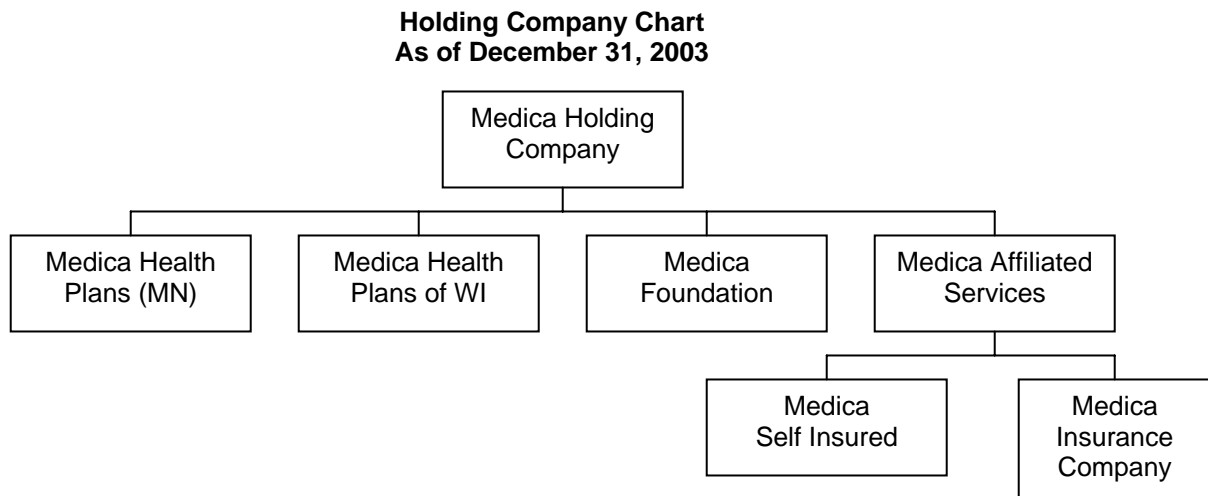
Under s. Ins 9.04 (6), Wis. Adm. Code, requires HMOs to either maintain compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code, or provide for the following in the event of the company's insolvency:

1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

The company has met this requirement by maintaining a compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Medica Holding Company. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.



Medica Holding Company

Medica Holding Company is a Minnesota nonprofit corporation, organized and operated exclusively for the promotion of social welfare. Control of Medica Health Plans of Wisconsin transferred to Medica Holding Company under a Plan of Reorganization and Disassociation Agreement between Medica Holding Company and Allina Health System filed with the Office of the Commissioner of Insurance on January 10, 2002, and subsequently approved.

Medica Health Plans

Medica Health Plans is a tax-exempt health maintenance organization that operates in Minnesota and North Dakota and is licensed in South Dakota. As of December 31, 2003, this company's audited financial statement reported (000s omitted) assets of \$676,869, liabilities of \$359,775, and surplus of \$317,094. Operations for 2003 produced net income of \$40,991 on revenues of \$1,485,200. The plan covered 482,248 members in the two states.

Medica Insurance Company

Medica Insurance Company is a Minnesota property and casualty insurance company that is licensed in Minnesota, Wisconsin and North Dakota. As of December 31, 2003, this company's financial statement reported (000s omitted) assets of \$111,293, liabilities of \$51,316, and capital and surplus of \$59,977. Operations for 2003 produced net income of \$8,667, on net premium income of \$299,769.

Affiliated Agreements

The company has entered into an administrative services agreement with Medica Health Plans, under which Medica Health Plans provides administrative services for the company, including provider relations, provider network development, management and contracting, medical management, communications, finance, sales and marketing member service, human resources, facilities planning, purchasing services, print and telecommunication services, mail distribution, payroll, accounts payable, controllership functions, underwriting, cash management, and bank account management.

V. CORPORATE INSURANCE

The company is provided with corporate insurance coverage under the contracts listed below:

Type of Coverage	Policy Limits
Directors' and officers' liability	\$20,000,000
Professional liability and managed care errors and omission coverage	10,000,000

The above coverages were obtained through the Chubb Group of Insurance Companies, which is licensed in Wisconsin.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2003, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."

**Medica Health Plans of Wisconsin
Assets
As of December 31, 2003**

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents and short-term investments	\$4,508,438	\$	\$4,508,438
Long-term required cash reserve	100,000		100,000
Uncollected premiums and agents' balances in the course of collection	8,064	1,794	6,270
Health care and other amounts receivable	97,591	40,601	56,990
Miscellaneous receivables	<u>1,851</u>	<u> </u>	<u>1,851</u>
Total Assets	<u>\$4,715,944</u>	<u>\$42,395</u>	<u>\$4,673,549</u>

**Medica Health Plans of Wisconsin
Liabilities and Net Worth
As of December 31, 2003**

Claims unpaid		\$1,059,047
Unpaid claims adjustment expenses		4,938
Premiums received in advance		186,208
General expenses due or accrued		18,789
Amounts due to parent, subsidiaries and affiliates		666,496
Other payables		<u>16,879</u>
Total Liabilities		1,952,357
Surplus notes	\$3,250,000	
Unassigned funds (surplus)	<u>(528,808)</u>	
Total capital and surplus		<u>2,721,192</u>
Total Liabilities, Capital and Surplus		<u>\$4,673,549</u>

**Medica Health Plans of Wisconsin
Statement of Revenue and Expenses
For the Year 2003**

Net premium income		\$8,947,957
Change in unearned premium reserves and reserve for rate credits		<u>(279,866)</u>
Total revenues		8,668,091
Medical and hospital:		
Hospital/medical benefits	\$6,788,345	
Prescription drugs	<u>1,062,693</u>	
Subtotal	7,851,038	
Claims adjustment expenses	77,023	
General administrative expenses	<u>823,060</u>	
Total underwriting deductions		<u>8,751,121</u>
Net underwriting gain or (loss)		(83,030)
Net investment income earned		<u>30,500</u>
Net income (loss)		<u>\$ (52,530)</u>

**Medica Health Plans of Wisconsin
Capital and Surplus Account
As of December 31, 2003**

Capital and surplus prior reporting year		\$1,784,516
Net income or (loss)	\$ (52,530)	
Change in nonadmitted assets	(10,794)	
Change in surplus notes	<u>1,000,000</u>	
Net change in capital and surplus		<u>936,676</u>
Capital and surplus end of reporting year		<u>\$2,721,192</u>

**Medica Health Plans of Wisconsin
Statement of Cash Flows
As of December 31, 2003**

Premiums collected net of reinsurance		\$8,568,885
Net investment income		30,500
Miscellaneous income		<u>(3,121)</u>
Total		8,596,264
Less:		
Benefit and loss related payments	\$8,017,795	
Commissions, expenses paid and aggregate write-ins for deductions	<u>897,356</u>	
Total		<u>8,915,151</u>
Net cash from operations		(318,887)
Cost of investments acquired - long-term only:		
Miscellaneous applications		(70,000)
Cash provided/applied:		
Surplus notes, capital notes	1,000,000	
Other cash provided (applied)	<u>662,985</u>	
Net cash from financing and miscellaneous sources		<u>1,662,985</u>
Net change in cash and short-term investments		1,274,098
Beginning of year (cash and short-term investments)		<u>3,234,340</u>
End of year (cash and short-term investments)		<u>\$4,508,438</u>

Growth of Medical Health Plans of Wisconsin

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2003	\$4,673,549	\$1,952,357	\$2,721,192	\$ 8,668,091	\$7,851,038	\$ (52,530)
2002	3,331,186	1,546,670	1,784,516	10,541,902	9,802,228	(427,519)
2001	3,173,111	1,403,043	1,770,068	7,750,629	6,736,438	183,564
2000	2,364,997	868,394	1,496,603	4,899,051	4,237,651	(137,602)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2003	-0.6%	90.6%	10.3%	-37.0%
2002	-4.0	93.0	11.6	-4.9
2001	2.3	86.9	11.9	39.1
2000	-2.8	86.5	17.8	34.0

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2003	2,683	211.57	3.0
2002	4,260	211.88	3.2
2001	4,479	210.58	2.9
2000	3,219	218.12	4.1

Per Member Per Month Information

	2003	2002	Percentage Change
Premiums:			
Commercial	\$209.35	\$197.38	6.4%
Expenses:			
Hospital/medical benefits	\$163.95	\$157.62	4.0
Prescription drugs	25.67	21.33	20.3
Other medical and hospital	<u>0.00</u>	<u>4.58</u>	-100.0
Total medical and hospital	189.62	183.53	3.3
Claims adjustment expenses	1.86	1.80	3.3
General administrative expenses	<u>19.88</u>	<u>21.33</u>	-6.8
Total underwriting deductions	<u>\$211.35</u>	<u>\$206.66</u>	2.3

The company reported a decrease in premium and enrollment in 2003. Membership levels decreased 37% while revenues decreased 18% from 2002. For the same period, claims payable decreased 14% and health care cost increases declined slightly, resulting in a net loss of \$52,530 in 2003 compared to a \$427,519 loss in 2002. A premium holiday equal to one-half of December 2003 premium also contributed to the net loss. Total capital and surplus increased by \$1,000,000 due to an additional surplus note issued to Medica Health Plans in 2003.

Reconciliation of Capital and Surplus per Examination

The examination made no adjustments to the company's' reported capital and surplus at December 31, 2003.

Examination Reclassifications

	Debit	Credit
Cash	\$	\$4,648,518
Investment income due and accrued	3,693	
Short-term investments	<u>4,644,825</u>	<u> </u>
 Total reclassifications	 <u>\$4,648,518</u>	 <u>\$4,648,518</u>

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control—It is recommended that the company file biographical information with respect to the appointment or election of any new director, trustee or officer as required by s. 613.54, Wis. Stat., and s. Ins 6.52 (5), Wis. Adm. Code.

Action—Compliance.

2. Management and Control—It is recommended that the company file agreements with affiliates as required by s. 617.21, Wis. Stat.

Action—Compliance.

3. Cash and Short-Term Investments—It is recommended that the company comply with ch. 177, Wis. Stat., as regards unclaimed funds, and that a liability for unclaimed funds be established in future statutory annual statements to account for all checks outstanding over one year.

Action—Compliance.

4. Restricted Funds—It is recommended that the company deposit funds with the state treasurer on or before April 1st of each year as required by s. 613.54, Wis. Stat.

Action—Compliance.

5. Financial Requirements—It is recommended that the company maintain net worth at the level required by s. Ins 51.80, Wis. Adm. Code, or make provisions for insolvency as required by s. Ins 9.04 (6), Wis. Adm. Code.

Action—Compliance.

Summary of Current Examination Results

Invested Assets

The examination's review of invested assets noted the company reported an investment in a money market mutual fund as cash on Schedule E–Part 1, rather than on Schedule DA-Part 1 as a short-term investment. This resulted in an examination reclassification of \$4,644,825 from Cash to Short-Term Investments. This reclassification is reflected in the section of this report captioned "Reconciliation of Capital and Surplus per Examination." It is recommended that the company properly classify money market mutual funds in accordance to the NAIC's Purposes and Procedures Manual of the NAIC Securities Valuation Office.

The examination's review of invested assets also noted that interest received subsequent to year-end was reported as having been received in 2003. This resulted in an examination reclassification of \$3,693 from Cash to Investment Income Due and Accrued. It is recommended that the company report interest accrued and not yet received at year-end as investment income due and accrued in accordance with the NAIC's Annual Statement Instructions - Health.

Health Care Receivables

It was noted in the review of health care receivables that the company did not report the nonadmitted portion of health care receivables on Exhibit 4. As the nonadmitted portion was reported on the asset page of the annual statement, no adjustment is necessary. It is recommended that the company complete Exhibit 4 of the annual statement in accordance with the NAIC's Annual Statement Instructions – Health.

Loss Adjustment Expenses

Per Statement of Statutory Accounting Principles (SSAP) No. 85 (4), claim adjustment expenses, including legal expenses can be subdivided into cost containment expenses and other claim adjustment expenses. The review of claim adjustment expenses noted that the company did not subdivide claim adjustment expenses into these two categories. It is recommended that the company subdivide claim adjustment expenses into cost containment

expenses and other claim adjustment expenses in accordance with the NAIC's Accounting Practices and Procedures Manual SSAP No. 85.

Compulsory Surplus Requirement

As noted in the section of this report captioned "Financial Requirements," HMOs are required to maintain a minimum compulsory surplus. Since the company does not provide for the insolvency provisions required by s. Ins 9.04 (6), Wis. Adm. Code, the company is required to maintain compulsory surplus as required of other insurers by s. Ins 51.80, Wis. Adm. Code. The requirement is the minimum of the greater of \$2,000,000 or the sum of 10% of group premium and 15% of individual premium as calculated below:

Assets	\$4,673,549	
Less:		
Special deposit	100,000	
Liabilities	1,952,357	
Examination adjustments	<u> </u>	
Total		\$2,621,192
Net premium earned	8,947,957	
Compulsory factor	<u>10%</u>	
	894,796	
Compulsory surplus		<u>2,000,000</u>
Compulsory Excess		<u>\$ 621,192</u>

VIII. CONCLUSION

Medica Health Plans of Wisconsin is a nonprofit network model health maintenance organization (HMO) insurer. Control of the company was transferred to Medica Holding Company during the examination period under a Plan of Reorganization and Disassociation Agreement between Medica Holding Company and Allina Health System filed with the Office of the Commissioner of Insurance on January 10, 2002, and subsequently approved.

The company's 2003 annual statement reported assets of \$4,673,549, liabilities of \$1,952,357 and capital and surplus of \$2,721,192. Operations for 2003 produced a net loss of \$52,530. Both membership levels and revenues decreased from 2002 to 2003; however, an additional surplus note issued to Medica Health Plans in 2003 increased total capital and surplus by \$1,000,000.

The examination determined company compliance with all five of the prior examination recommendations. The current examination resulted in four recommendations regarding invested assets, health care receivables, and loss adjustment expenses, which are summarized in the "Summary of Comments and Recommendations" section of this report. There were no adjustments to surplus and two reclassifications of balance sheet accounts as a result of the examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Invested Assets—It is recommended that the company properly classify money market mutual funds in accordance to the NAIC's Purposes and Procedures Manual of the NAIC Securities Valuation Office.
2. Page 21 - Invested Assets—It is recommended that the company report interest accrued and not yet received at year-end as investment income due and accrued in accordance with the NAIC's Annual Statement Instructions - Health.
3. Page 21 - Health Care Receivables—It is recommended that the company complete Exhibit 4 of the annual statement in accordance with the NAIC's Annual Statement Instructions – Health.
4. Page 21 - Loss Adjustment Expenses—It is recommended that the company subdivide claim adjustment expenses into cost containment expenses and other claim adjustment expenses in accordance with the NAIC's Accounting Practices and Procedures Manual SSAP No. 85.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Karl Albert	Insurance Financial Examiner
Randy Milquet	EDP Specialist

Respectfully submitted,

Jean Suchomel
Examiner-in-Charge